Union Calendar No. 789
82d Congress, 2d Session - - - - - - House Report No. 2502

THE ADMINISTRATION OF THE NAVAL INDUSTRIAL RESERVE SHIPYARD, WILMINGTON, DEL.

NINETEENTH INTERMEDIATE REPORT

OF THE

COMMITTEE ON EXPENDITURES IN THE EXECUTIVE DEPARTMENTS

DECEMBER 11, 1952.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1952

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[1] Name changed to Committee on Government Operations, July 4, 1952.

LETTER OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
Washington, D. C., December 11, 1952.

Hon. RALPH R. ROBERTS,
Clerk of the House of Representatives,
Washington, D. C.

DEAR MR. CLERK: I submit herewith the nineteenth intermediate report of the Committee on Expenditures in the Executive Departments.[1]

WILLIAM L. DAWSON, *Chairman.*

[1] Name changed to Committee on Government Operations, July 4, 1952.

H. Repts., 82-2, vol. 4——98

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DECEMBER 11, 1952.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. DAWSON, from the Committee on Expenditures in the Executive Departments,[1] submitted the following

NINETEENTH INTERMEDIATE REPORT

[Pursuant to H. Res. 736 (July 4, 1952), 82d Cong.]

On December 11, 1952, the Government Operations Subcommittee, of which Congressman Porter Hardy, Jr., is chairman, submitted a report on the administration of the Naval Industrial Reserve Shipyard, Wilmington, Del.

In accordance with permission granted the House on July 4, 1952, Chairman William L. Dawson submits the nineteenth intermediate report of the committee.

BASIS OF HEARING

The Subcommittee on Government Operations made a study of the manner in which the Navy handled the administration and supervision of the leasing and maintenance at the Naval Industrial Reserve Shipyard at Wilmington, Del. This installation is in the Fourth Naval District, and following World War II it was determined to be in excess of the Navy's current requirements. As part of the policy to retain, within economical limits, certain facilities to be immediately available in the event of a national emergency, the Navy, pursuant to Public Law 364, Eightieth Congress, undertook the leasing of part of the property and facilities at this installation. (See appendix for pertinent provisions of law.) In this connection a review was made of the methods employed to ascertain if Government agencies other than the Navy could economically and advantageously use the facilities.

The task of the subcommittee proved difficult because of the divided responsibility existing in connection with the administration of these facilities and the lack of any central source of information concerning such administration. The Bureau of Supplies and

[1] Name changed to Committee on Government Operations, July 4, 1952.

Accounts, the Bureau of Yards and Docks, the Bureau of Ships, the District Public Works Office of the Fourth Naval District, Philadelphia, Pa., lessees of facilities, civilian maintenance contractors, and the Office of the Secretary of the Navy in Washington, D. C., seemingly all had a hand in the administration and supervision of the Wilmington installation. No direct lines of responsibility and authority could be traced. The various officers and civilians interviewed were in the main cooperative, but their scope of information and their knowledge of detail left much to be desired.

THE HEARING

Pursuant to proper call, a hearing was held on Wednesday, September 17, 1952. The chairman of the subcommittee, Mr. Hardy, presided.

The first witness called was Commander Howard B. Gates, Jr., assistant district public works officer of the Fourth Naval District. Among the duties of this office was stated to be the management responsibility for the Naval Industrial Reserve Shipyard at Wilmington, Del., known as Dravo. This installation is subject to multiple leasing. In some instances there are both Government and civilian occupants of the same buildings. The leases are usually made on a combination basis of maintenance expenditure and direct revenue.

1. Lease to Harmon Corp.

Direct reference was made to the lease of an area by Hub Terminal, Inc., and this reference revealed that part of the space leased to Hub Terminal, Inc., was originally leased to the Harmon Corp., which became bankrupt during the term of the lease. This transaction is cited because it indicates the extent to which responsibility of prospective tenants is given weight. Mr. Cochrane, head of the Realty Legal Section of the Property Administration Division of the Bureau of Yards and Docks, was interrogated by Chairman Hardy in connection with the performance bond given in the Harmon matter. The following excerpts from the transcript of the hearing are here pertinent:

Mr. HARDY. Did you take a performance bond?
Mr. COCHRANE. Harmon? Yes.
Mr. HARDY. Did you collect on the performance bond?
Mr. COCHRANE. We collected on the performance bond.
Mr. HARDY. So that actually you did recover under the lease?
Mr. COCHRANE. The performance bond was not equal to the amount of the given obligation.
Mr. HARDY. You did not take an adequate bond?
Mr. COCHRANE. No.

* * * * * * *

Mr. HARDY. Do you know what the amount of the performance bond was?
Mr. COCHRANE. No.

And within a few minutes of the testimony above quoted, Mr. Cochrane stated:

I do not even know that there was a bond in that instance, because the Harmon case is probably the first we have had under this law.

There was no bond required in the Harmon matter and a subsequent submission by the Navy indicated receipt of $6,256 to apply against an obligation of $42,573.03.

2. Transaction with Hub Terminal, Inc.

The lease to Hub Terminal, Inc., comprised 79,651 square feet in Building N–11. The lease instrument was described as a revocable permit; the original effective date was June 4, 1951; and the rental was $2,655.03 per month. A discussion ensued as to the sort of approval the transaction with Hub Terminal, Inc., should have received and did receive. This discussion developed clearly the lack of specific procedure in matters of this sort and, further, the vague understanding of administrative responsibility.

Despite repeated efforts of the chairman to determine the general procedure covering these lease transactions, it was never made clear. On the contrary, there would appear to be no procedure.

Mr. HARDY. So that in the case of the Hub permittee, it was handled by the Bureau on the basis of negotiation conducted in the district; is that correct?

Mr. COCHRANE. That is right.

Mr. HARDY. Is that true with respect to other tenants, that have leased property?

Mr. COCHRANE. My recollection is, and I will have to make a check, that Laub was negotiated; the lease arose in the district.

Mr. MCDOWELL. Yes; it was consummated in the Bureau.

Mr. HARDY. I do not care about getting into the different, separate details, but the thing that I am trying to get clear in my own mind is how you handle these leases, and I wanted to see whether the negotiations were conducted generally in the district or in the Bureau. I understand that the final action was taken in the Bureau, but if it were purely a superficial approval, insofar as the pertinent details are concerned, then responsibility goes right back to the district public works office; is that right?

Mr. COCHRANE. That is true.

Mr. HARDY. Now is that true generally, or not?

Mr. COCHRANE. There is no rule; there is no rule.

3. Notification re available storage facilities

The subcommittee then sought to find out what procedure existed to inform other Government agencies of the availability of warehouse space in Navy installations. It was stated that the—

Department of Defense, Real Estate Division, makes that information available to various bureaus located in Washington.

There was no assurance given that the Department of Defense had any information as to availability of space leased to Hub Terminal, Inc. A brochure dated September 6, 1950, seemingly was prepared as general information to the effect that certain facilities were available at the Wilmington installation, but an alleged list of recipients could not be produced. The letter, transmitting the brochure, contained a notation, however, that it was to be posted on a bulletin board. The following colloquy is explanatory:

Mr. FLEMING. I would make this observation, however, if you were sending a brochure of this kind to the other Government agencies and to GSA, I do not believe you would have figured on displaying the brochure on a bulletin board, would you?

Commander GATES. Probably not.

Mr. HARDY. As a matter of fact, so far as you know, there is not anything there to indicate to whom, to which agencies it was sent, or whether or not it was sent?

Commander GATES. I believe not. I never saw it until just now.

Mr. HARDY. Insofar as the evidence is concerned, it may have died aborning?
Commander GATES. That is possible; but I hope we will be able to come up with something indicating the contrary.

Nothing to the contrary was forthcoming.

4. Performance bond

Referring to the performance bond in the Hub Terminal transaction, Commander Gates stated:

To the best of my knowledge, there is no bond as of this date.
Mr. HARDY. That contract has been in effect for considerably more than a year. At what time is a contractor, lessee, or whatever it might be in this case, expected to furnish a bond?
Mr. COCHRANE. Immediately upon execution.

The chairman then, unsuccessfully, tried to ascertain who was directly responsible for the execution of the bond, and then stated to Mr. Cochrane:

In other words, you just want to ameliorate the thing a little by sharing the blame?

And Mr. Cochrane answered:

I think so.

As a matter of fact, the contract with Hub Terminal, Inc., contrary to good protective practice, required no performance bond.

5. Formalization of Hub Terminal, Inc., contract

Although Hub Terminal, Inc., occupied the premises on June 4, 1951, the revocable permit was not issued for several months. The fault for this delay in formalization was assumed by Mr. Cochrane, but he stated that there was on record a letter setting forth in general terms the understanding as to what the formal agreement would contain. Then Mr. Cochrane, upon being pressed by the chairman for details concerning this letter, made this revealing statement as to his competence to testify on the matter—

Let me check. There was a letter; wasn't there?

An attempt was then made by this witness to excuse his floundering by claiming he did not have notice of the scope of the hearing, which, even if true, could hardly justify such testimony as he offered at this hearing.

Commander Gates tried to clarify the situation but could only do so by making reference to the fact that there must have been a confirmation letter but that most of the negotiation and confirmation was probably by personal interview and by telephone.

6. Urgent space requirements by the General Services Administration

Testimony of the General Services Administration witnesses disclosed that the agency had urgent need for space to store rubber beginning about January 1951. On July 12, 1951, Hub Terminal, Inc., offered space to the General Services Administration, and on July 19, 1951, the offer was accepted. The space covered by the agreement was approximately 35,000 square feet. The rate was $3,481.27 per month for about 3,481 tons of rubber. Therefore, on an annual basis, and exclusive of a handling charge of $1 per ton, the General Services Administration is paying $41,775.24 a year, whereas the Navy is to receive in the form of obligated maintenance from Hub Terminal, Inc., $31,860.36. This differential shows a gross

profit of $9,914.88 a year for less than half of the space rented by the Navy to Hub Terminal, Inc.

A witness for the General Services Administration stated that there was daily contact with the Bureau of Supplies and Accounts, relative to stockpile storage. Further, the witness stated that this Bureau is charged with the responsibility of coordinating and acting as liaison with the General Services Administration, specifically on operations relative to the space requirements for the stockpile program. Mr. Maxwell Elliott, General Counsel of the General Services Administration, testified that a search of their records failed to reveal any communication from the Navy to the effect that space at the Wilmington installation was available until a letter dated February 6, 1952, was received. This letter was subsequent to the start of the study by the subcommittee and was signed by Capt. E. L. Hansen, of the Bureau of Yards and Docks. It cited the arrangements with Hub Terminal, Inc., and offered to negotiate directly with the General Services Administration. (See letter set forth in appendix.)

Failure on the part of the General Services Administration to enter into an agreement with the Navy for the Hub Terminal storage space between February and September 1952 was not satisfactorily explained. Failure on the part of the General Services Administration to find out at the time of making the contract with Hub Terminal, Inc., that the latter had no formal agreement with the Navy, although the General Services Administration representatives knew the space belonged to the Navy, is evidence of lack of thoroughness on the part of the General Services Administration. The area of dispute cited at the hearing between the Navy, the General Services Administration, the Department of Defense, and the General Accounting Office, concerning the authority of one Government agency to use facilities of another, should be resolved.

7. Service contract with Regal Supply Co.

The Bureau of Yards and Docks and the Bureau of Ships were engaged jointly, through the industrial manager, the district public works officer, the shipyard public works officer, the commander of the shipyard, and the shipyard security officer, in the mismanagement of the Wilmington installation. Sometime early in 1951 it occurred to someone that a better system of management was desirable. The situation was aptly described by Commander Gates as one in which "the right hand did not know what the left hand was doing." Dependable documentation to permit the orderly unscrambling of this operation is unavailable.

It was determined that guards, operation of the power plant, and lease administration should be under one command. Some 13 months following this determination it was made effective. The method of making it effective is subject to censure.

Sometime in the early fall of 1951 negotiations were started with a Mr. Rubin, of the Regal Supply Co. All of these negotiations were by interview or by telephone, without written memoranda. Commander Gates appropriately described the work of his office when he stated:

> And may I add, Mr. Chairman, that the things that go on in our office are not as thoroughly checked as they should be, because we are short-handed for personnel and deal very considerably in verbal instructions given directly or by telephone.

The evidence would indicate that it was a foregone conclusion that the Regal Supply Co. would get the service contract. The first document that appears is dated January 23, 1952, and contains a firm offer from the Regal Supply Co. to perform the security and maintenance services. On January 24 there was suddenly much activity about obtaining other bids, but there is no evidence to indicate other bidders had available the same information as was made available to the ultimately successful bidder—the Regal Supply Co. Further, other bidders were given only a few days to submit their bids. Another interesting fact is that the bid of the Regal Supply Co. was within $50 of the salaries and wages paid at Dravo for the security and maintenance operation of the Navy.

One reason given for the great rush to execute a service contract prior to February was that reduction-in-force notices had been sent out to Navy personnel early in January. In view of personnel ceilings imposed on the Navy, the service contract permitted a reduction in force with no commensurate financial benefit to the Government. A direct connection was denied by the Navy, but a service contract can be a devious device to stay within reduced personnel ceilings.

The supervision of the maintenance operation at the Wilmington installation was poor. Mr. McDowell, of Commander Gates' office, would visit the installation about every 3 months to see what should be attended to, but there were never any written reports of his findings or recommendations. A resident representative, with relatively no supervision, seemingly was in complete charge of the work being performed at the installation. A recommendation was made in the annual inspection report of August 1951 to establish and maintain better control of maintenance. At the time of the hearing no action had been taken to follow this recommendation. The following colloquy is here pertinent:

Mr. HARDY. The thing I am trying to develop, if I understand it correctly, the district public works officer has a responsibility for carrying out the provisions of the lease—to see that the provisions of the lease are carried out?

Commander GATES. That's right.

Mr. HARDY. The manner in which the rent is paid and your obligated maintenance?

Commander GATES. That's right.

Mr. HARDY. Then whether or not the maintenance is performed or properly performed or adequately performed would determine whether or not the tenant was actually fulfilling his contract?

Commander GATES. Yes, sir.

Mr. HARDY. According to the testimony that I have been able to dig out here, the only person who made any determination with respect to performance of the lessees was your resident representative?

Commander GATES. Yes, sir.

Mr. HARDY. Who was a GS–8? (Civil Service salary range for this grade is $4,620 to $5,370).

Commander GATES. Yes, sir.

Captain Mason, United States Navy, stated near the close of the hearing:

I think we muffed our presentation here this afternoon and what do you want us to do on that?

The committee agrees that the presentation was "muffed," but the real question is whether, in view of the facts, any worth-while presentation could be made other than one of admission of inadequate and incompetent administration.

The method of determining the amount to be charged for electricity used by each tenant at the Wilmington installation was arrived at largely through guesswork. The total bill to the yard was divided up and the tenants were billed. The billings for air were arrived at through an honor system. Charges for steam were determined through a guesswork system. Frequently, under the method of billing employed, the Navy got free utilities.

The naval resident representative at Dravo stated that the only check made on cost of maintenance performed by tenants was taken from the tenants' books, approximately once every 6 months, by the Navy cost inspector.

The committee is fully aware that the Wilmington installation and its operation are a relatively minor phase of the Navy maintenance program. It is difficult, however, from the facts regarding its administration revealed at the hearing, to assume that all other installations are better managed. Our study of Dravo leads us to conclude and recommend, insofar as that installation is concerned, as follows:

CONCLUSIONS

1. There was a marked lack of coordination among district representatives of the several Navy bureaus involved which resulted in open administrative conflict.
2. Pre-award analysis to determine contractors' responsibility was incomplete.
3. Necessary procedural guides did not exist, and such procedures as did exist were not followed.
4. There was an absence of needed operational directives and personnel supervision.
5. Comprehensive notification of available facilities was not given.
6. The procedures followed in the awarding of contracts were unsatisfactory.

RECOMMENDATIONS

1. There should be improved and more complete procedural standards set forth and followed concerning the awarding of service and maintenance contracts.
2. There should be a closer check on the performance of contracts and a reexamination of accounting procedures.
3. Documentation of important negotiations and reports should be required.
4. Supervision of personnel should be improved.
5. Cooperation between the Navy and the General Services Administration is badly needed in order that the services of both agencies will inure to the public benefit.

APPENDIX

B–420/mw
ND4/N1–1
FEBRUARY 6, 1952.

ADMINISTRATOR OF GENERAL SERVICES,
General Services Administration,
Public Buildings Services,
Washington 25, D. C.

DEAR SIR: It has recently come to the attention of this Bureau that your agency is storing Government-owned materials in Navy-owned property at the Naval Industrial Reserve Shipyard, Wilmington, Del. It is understood that the arrangements for this storage of materials are through the Navy Department tenant, the Hub Terminals, Inc., whose address is 5306 Saratoga Avenue, Chevy Chase 15, Md.

For your information, the Hub Terminals, Inc., has been issued a temporary "right of entry," subject to the consummation of a revocable permit. The general terms of the temporary "right of entry," which will be incorporated in the revocable permit, are as follows:

(*a*) Use for an indeterminate period, revocable at will by the permitter.
(*b*) Use for general warehouse purposes.
(*c*) Pay rent at rate of $0.40 per square foot per annum for the available space.
(*d*) All day-to-day maintenance will be at the corporation's expense.
(*e*) Carry fire and extended coverage insurance in the amount of $300,000 and public liability insurance.
(*f*) Pay the cost of all utilities.

It will be noted that the temporary "right of entry" may be terminated at will by the Department.

If your agency desires to obtain the use of storage space directly from the Navy Department, this Bureau will be pleased to discuss the matter with you and take such action as is deemed advisable.

Sincerely yours,

E. L. HANSEN,
Captain (CEC) USN,
Assistant Chief for Business Management.

Copy to:
B–400.
B–411.

[PUBLIC LAW 364—80TH CONGRESS]

[CHAPTER 493—1ST SESSION]

[S. 1198]

AN ACT

To authorize leases of real or personal property by the War and Navy Departments, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever the Secretary of War or the Secretary of the Navy shall deem it to be advantageous to the Government he is authorized to lease such real or personal property under the control of his Department as is not surplus to the needs of the Department within the meaning of the Act of October 3, 1944 (58 Stat. 765), and is not for the time required for public use, to such lessee or lessees and upon such terms and conditions as in his judgment will promote the national defense or will be in the public interest. Each such lease shall be for a period not exceeding five years unless the Secretary of the Department concerned shall determine that a longer period will promote the national

defense or will be in the public interest. The Secretary of the Department concerned may include, among other terms and conditions in the lease, a right of first refusal in the lessee to purchase the property in the event of the revocation of the lease in order to permit sale thereof by the Government, but this section shall not be construed as authorizing the sale of any property unless the sale thereof is otherwise authorized by law. Each such lease shall contain a provision permitting the Secretary of the Department concerned to revoke the lease at any time, unless the Secretary shall determine that the omission of such provision from the lease will promote the national defense or will be in the public interest. In any event each such lease shall be revocable by the Secretary of the Department concerned during a national emergency declared by the President. Notwithstanding section 321 of the Act of June 30, 1932 (47 Stat. 412; U. S. C., title 40, sec. 303b), or any other provision of law, any such lease may provide for the maintenance, protection, repair, or restoration by the lessee, of the property leased or of the entire unit or installation where a substantial part thereof is leased, as a part or all of the consideration for the lease of such property. In the event utilities or services shall be furnished by the Department concerned to the lessee in connection with any lease, payments for utilities or services so furnished may be covered into the Treasury to the credit of the appropriation or appropriations from which the costs of furnishing any such utilities or services to the lessee was paid. Except as otherwise hereinabove provided, any money rentals received by the Government directly under any such lease shall be deposited and covered into the Treasury as miscellaneous receipts. The authority herein granted shall not apply to oil, mineral, or phosphate lands. The Secretary of War or the Secretary of the Navy, as the case may be, shall submit to the Congress on the 1st day of January and the 1st day of July of each year, following the enactment of this law, a report of all leases entered into in accordance with the provisions of this Act.

SEC. 2. The Act of July 28, 1892, as amended (27 Stat. 321; 45 Stat. 988; U. S. C., title 40, sec. 303), is hereby repealed. So much of the Naval Appropriation Act of August 29, 1916, as is contained under the heading "Lease of Naval Lands", as amended (39 Stat. 559; 45 Stat. 990; U. S. C., title 34, sec. 522), is hereby repealed.

SEC. 3. (a) Notwithstanding any other provision of law, all right, title, and interest of Reconstruction Finance Corporation in any plants or facilities, and the machinery, equipment, and other personal property accessory thereto, acquired by Defense Plant Corporation or Reconstruction Finance Corporation in accordance with authority contained in the Reconstruction Finance Corporation Act (U. S. C., title 15, secs 601–617) pursuant to undertakings by the War Department or the Navy Department to reimburse Defense Plant Corporation or Reconstruction Finance Corporation to the extent of the unrecovered cost thereof in the event Congress authorizes such reimbursement by making appropriations therefor, shall be transferred by Reconstruction Finance Corporation (or by War Assets Administration, if such property has been declared surplus) to the War Department or the Navy Department upon certification by the Secretary of War or the Secretary of the Navy made within six months after the enactment hereof, that the retention of such plants or facilities, and the machinery, equipment, and other personal property accessory thereto, by the War Department or the Navy Department, as the case may be, is necessary for the maintenance of an adequate Military or Naval Establishment including industrial reserve.

(b) Notwithstanding any other provision of law, all right, title, and interest of Reconstruction Finance Corporation or War Assets Administration in any machinery or equipment shall be transferred by the agency having control thereof to the War Department or the Navy Department upon certification by the Secretary of War or the Secretary of the Navy made within six months after the enactment hereof, that the retention of such machinery or equipment by the War Department or the Navy Department, is necessary for the maintenance of an adequate Military or Naval Establishment, including industrial reserve.

SEC. 4. Any transfer made pursuant to section 3 of this Act shall be approved by the Director of the Bureau of the Budget to the extent and in the manner determined by him and shall be made without charge or reimbursement from the funds available to the War Department or the Navy Department, except for costs of packing, handling, and transportation of machinery and equipment transferred under section 3 (b) hereof.

SEC. 5. (a) Whenever in the opinion of the Secretary of War or the Secretary of the Navy, as the case may be, the interests of national defense require assurance of the continued availability for war-production purposes of the industrial capacity of shipyards, plants, and equipment which are surplus to the

needs of their respective Departments or of the Reconstruction Finance Corporation within the meaning of the Surplus Property Act of 1944, they are authorized to direct the imposition of such terms, conditions, restrictions, and reservations in the disposition of such property by the disposal agency under said Act as will in the opinion of the Secretary concerned be adequate to assure such continued availability.

(b) In the event the disposal agency is unable to dispose of any such industrial plants and equipment subject to such terms, conditions, restrictions, or reservations as have been imposed, within a reasonable time and after such property shall have been offered for sale and reasonable efforts made to dispose of the same, the Department imposing such terms, conditions, restrictions, or reservations shall (1) modify them to the extent necessary to permit the sale or lease of such property, (2) withdraw the property from surplus, or, in the case of Reconstruction Finance Corporation property, request a transfer thereof in the manner provided in sections 3 (a) and 4 of this Act, or (3) eliminate and waive the requirement for the imposition of any terms, conditions, restrictions, or reservations made under the authority of this section.

SEC. 6. The lessee's interest, made or created pursuant to the provisions of this Act, shall be made subject to State or local taxation. Any lease of property authorized under the provisions of this Act shall contain a provision that if and to the extent that such property is made taxable by State and local governments by Act of Congress, in such event the terms of such lease shall be renegotiated.

SEC. 7. There is authorized to be appropriated, out of any moneys in the Treasury of the United States not otherwise appropriated, such sums as may be necessary to carry out the purposes of this Act.

Approved August 5, 1947.

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